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EUROSYSTÈME

Companies

Outstanding loans to enterprises increased sharply in France in the first half of 2020

Since the outbreak of the Covid-19 crisis in March 2020, outstanding bank loans to enterprises have surged: between end-February and end-June 2020, they rose by EUR 101 billion. This upswing can be attributed first and foremost to substantial drawing on existing credit lines as of March 2020 by mid-tier enterprises and large corporations. The second largest contributing factor has been the use of the state-guaranteed loan (SGL) scheme, primarily by small and medium-sized enterprises (SMEs). Since July 2020, the volume of SGLs appears to have stabilised: between June and July 2020, it increased by "just" EUR 10 billion, after rising by EUR 19 billion between May and June, and by EUR 45 billion between April and May. The introduction of the SGL scheme has prompted a decline in interest rates on loans to enterprises.

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JEL codes
E51, G32,
H81

EUR **101** billion
increase in the amount of outstanding bank loans to enterprises between end-February and end-June 2020

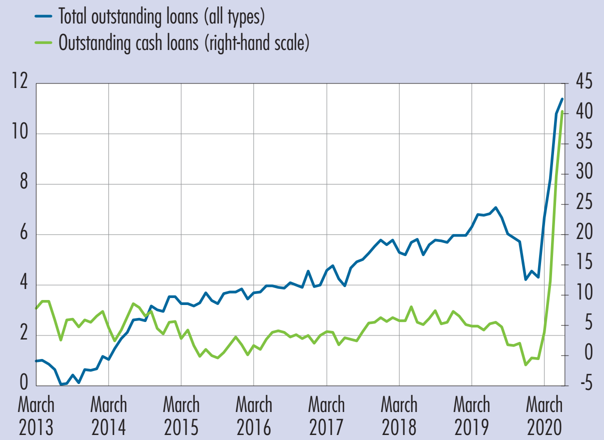
EUR **25** billion per month
average monthly rise in outstanding loans between end-February and end-June 2020, compared with EUR 3 billion per month on average between February 2019 and February 2020

76%
share of total state-guaranteed loans (SGLs) granted to SMEs at end-June 2020, compared with 12% for large corporations

–87 basis points
fall in interest rates on new loans of less than EUR 1 million (from 1.49% in February to 0.62% in May 2020)

Annual growth rate in outstanding loans to enterprises

(%)



Source: Banque de France.
Note: Outstanding cash loans are proxied by short-term loans.

As a result of the epidemic linked to the novel coronavirus, French GDP slumped by 13.8% in the second quarter of 2020 following a 5.9% decline in the first quarter.[1] The contraction in activity led to a steep drop in corporate revenues, leaving firms in urgent need of liquidity, notably to cover charges that could not be deferred. One of the main sources of liquidity for firms is bank credit. This article analyses the dynamics in firms' bank borrowing in the first half of 2020 in the context of the crisis.

1 A sharp rise in outstanding loans from the start of the first lockdown

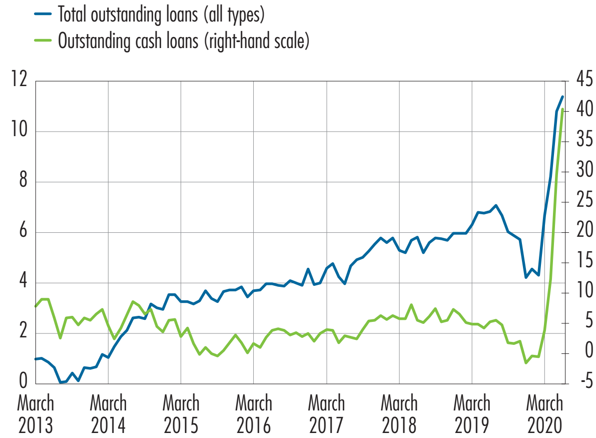
The recovery in activity from the low of 2012 fuelled a steady acceleration in the annual rate of growth in outstanding loans to firms, from 0.1% in mid-2013 to 7.1% by mid-2019. The growth rate subsequently eased, and in February 2020, just before the start of the Covid-19 crisis, it stood at 4.3% (see Chart 1).

The effects of the shock to activity were immediately visible in France, with bank lending to enterprises surging from as early as March 2020 (especially cash loans, on account of the state-guaranteed loan scheme; see below). Total outstanding loans to firms jumped by EUR 101 billion in the space of just four months (from end-February to end-June 2020). This very rapid rise – of around EUR 25 billion per month on average from February to June 2020 – compares with average monthly growth of EUR 3 billion in outstanding loans between February 2019 and February 2020.

The surge in bank credit came in response to the rapid deterioration in firms' cash positions (see Chart 2). Deprived of income by the lockdown, firms still had to pay the charges accumulated before the crisis. Bank credit was therefore used (i) to help pay these charges; and (ii) to rebuild cash reserves. Firms have also showed a tendency to hoard cash since the start of the crisis, with the gross debt and deposits of non-financial corporations both following very similar trajectories since March 2020 (increasing by EUR 151.4 billion and EUR 149.6 billion respectively; see Table 1).

C1 Annual growth in outstanding loans to enterprises

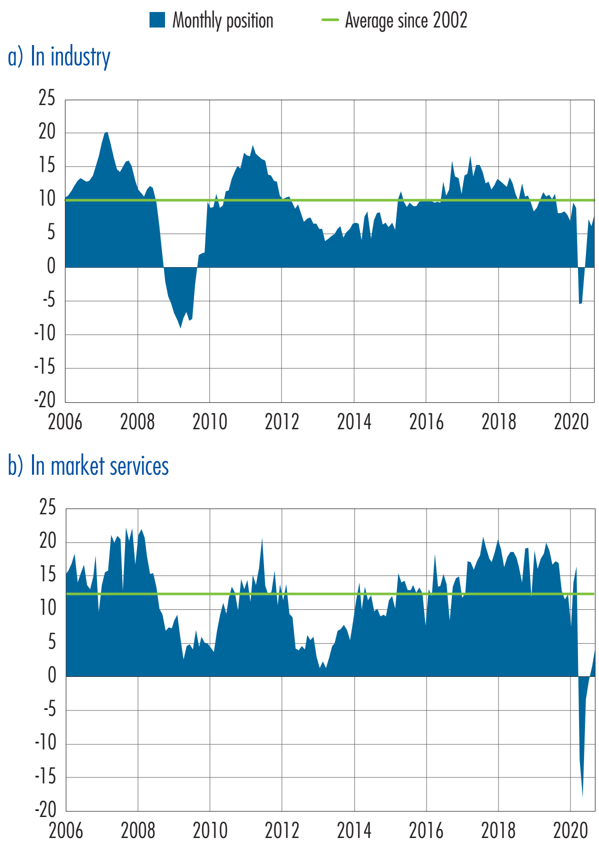
(%)



Source: Banque de France.
Note: Outstanding cash loans are proxied by short-term loans.

C2 Change in cash positions

(balance of opinion)



Source: Banque de France – *Update on business conditions in France at the end of August 2020*, and updated data at *https://www.banque-france.fr/statistiques/conjoncture/enquetes-de-conjoncture/point-de-conjoncture*.

1 INSEE figures from 8 September 2020 on economic activity and updated figures are available at *https://www.insee.fr/fr/statistiques/4473296*.

T1 Non-financial corporations: cash positions and debt

(stocks and flows in EUR billions)

	Stocks		Flows					
	February 2020	June 2020	March	April	May	June	Between 30 June and 10 July	Average January 2017-February 2020
Cash								
Cash[a]	**688.3**	**837.9**	**27.7**	**42.7**	**58.5**	**12.7**	**na**	
Bank deposits	632.9	776.5	41.2	40.6	47.2	14.7	2.1	3.4
Overnight deposits	*471.3*	*612.5*	*40.4*	*44.4*	*45.3*	*11.1*	*-0.2*	*3.5*
Interest-bearing deposits	*161.5*	*164.0*	*0.8*	*-3.8*	*1.9*	*3.6*	*2.3*	*-0.1*
Money-market funds[b]	55.4	61.4	-13.5	2.1	11.3	-2.0	na	-0.6
Debt								
Gross debt	**1,710.1**	**1,861.5**	**33.0**	**58.6**	**42.3**	**17.8**	**9.9**	**7.4**
Bank credit	1,066.5	1,170.4	35.4	25.3	28.9	14.2	2.8	4.5
o/w SGLs		105.8[c]						
Cash loans	*236.7*	*317.3*	*27.3*	*19.1*	*24.0*	*10.3*	*1.8*	*0.6*
Investment loans	*767.8*	*785.1*	*7.7*	*4.6*	*3.8*	*1.1*	*1.0*	*3.6*
Other	*62.1*	*68.0*	*0.4*	*1.6*	*1.1*	*2.8*		*0.2*
Debt securities[b]	643.1	691.1	-2.4	33.3	13.4	3.6	7.0	2.9
Maturity <1yr	*53.1*	*62.5*	*-1.9*	*8.8*	*8.2*	*-5.4*	*7.0*	*0.5*
Maturity >1yr	*590.0*	*628.6*	*-0.5*	*24.5*	*5.2*	*9.0*		*2.4*
Gross debt (cumulative total since March)			**33.0**	**91.7**	**134.0**	**151.8**	**161.6**	
Gross debt – deposits (cumulative total since March)			**-8.1**	**9.9**	**5.0**	**8.1**	**15.9**	
Gross debt – cash (cumulative total since March)			**5.3**	**21.2**	**5.0**	**10.1**	**–**	
Gross debt – deposits (monthly flows)			*-8.1*	*18.0*	*-4.9*	*3.1*	*7.8*	
Gross debt – cash (monthly flows)			*5.3*	*15.9*	*-16.2*	*5.1*	*–*	

Source: Banque de France – Monetary and Financial Statistics Directorate, *"L'impact de la crise du Covid-19 sur la situation financière des ménages et des entreprises"*.
a) Excluding short-term securities.
b) Provisional data for May.
c) There may be a time lag between the setting up of the state-guaranteed loan and the time it is actually paid out of the lender's accounts.

Firms have accessed this liquidity via different mechanisms, but principally by drawing on existing lines of credit and by taking out state-guaranteed loans.

2 Growth in outstanding loans by firm size

The rise in lending as of March 2020 was initially driven by large corporations (LCs) and mid-tier enterprises (MTEs). Outstanding loans to LCs and MTEs surged from the very start of the crisis, increasing by EUR 16.3 billion between end-February and end-March for LCs and by EUR 13.5 billion for MTEs. In contrast, at end-March 2020, outstanding loans to SMEs were still relatively stable (rise of EUR 1.9 billion between February and March 2020). From April 2020 onwards, however, outstanding loans to SMEs also began to rise (increase of EUR 18. 4 billion between March and April 2020). This one month lag between the rise in lending to LCs and MTEs and then in lending to SMEs is linked to the different mechanisms used to access credit over the period.

Drawing of credit lines by MTEs and LCs as of March 2020

The rise in outstanding loans was initially driven by the drawing of existing credit lines.

To understand this mechanism, it is important to highlight the difference between credit that is "available" and credit that has been "drawn". An outstanding loan is deemed to have been drawn if the corresponding amount has actually been paid out by the bank and used by the borrowing firm. Conversely, the outstanding loan is deemed to be "available" if it has been approved and confirmed by the bank but not yet used by the firm. The drawing of an existing credit line consists in actually borrowing the available credit – the loan is then deemed to have been "drawn" by the firm. From an accounting viewpoint, available credit is recorded as an off-balance sheet commitment and then transferred to the balance sheet once the credit line has been drawn.

Before the state-guaranteed loan (SGL) system was set up, firms were rapidly able to draw on their available credit lines. There is no direct collection of statistics on the drawing of credit lines; however, estimates based on data from the Banque de France's Central Credit Register show that: (i) straight away in March 2020, firms drew massively on these credit lines; and (ii) the majority of these drawings were by MTEs and LCs – no similar trend can be observed for SMEs.

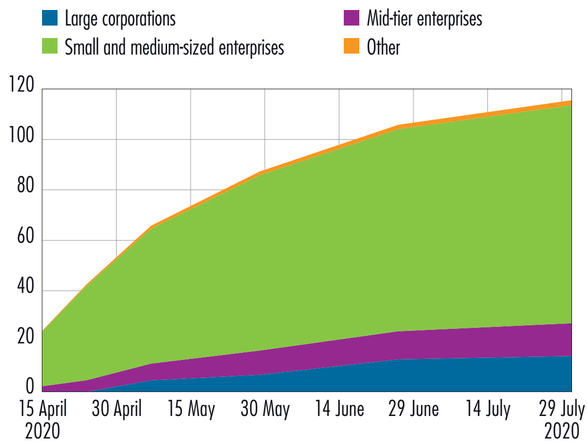
In fact, on average, only 12% of SMEs' outstanding credit can be classified as "available", compared with 22% for MTEs and 49% for LCs.[2] Large firms therefore find it much easier to access large amounts of funding by drawing on existing credit lines.

This drawing of existing credit lines explains the majority of the rise in outstanding loans between end-February and end-March 2020 (increase of EUR 32 billion), which is when the SGL mechanism was being set up.

Gradual roll-out of the SGL scheme, with particularly strong demand from SMEs

Announced on 16 March 2020, the *SGL scheme* was rolled out gradually, and consisted in the provision of cheap loans (banks undertook to grant them at "cost price"),[3] initially of up to three months of the firm's 2019 turnover. For enterprises struggling under the lockdown, or more generally due to the drop in activity linked to the Covid-19 crisis, SGLs were a major solution for rapidly covering short-term liquidity needs. From as early as April, the scheme had a significant impact on the trajectory of outstanding lending.

C3 Outstanding state-guaranteed loans
(EUR billions)



Source: Ministry of the Economy and Finance.

According to the Ministry of the Economy and Finance, by mid-April 2020 total outstanding SGLs stood at around EUR 24 billion, and by mid-June this had risen to over EUR 105 billion[4] (see Chart 3). The main beneficiaries of the scheme have been SMEs: in mid-April they accounted for 90% of the total volume of loans, although by mid-June this figure had fallen to 76% due to the rising share of SGLs granted to large corporations (their share went from 0% in mid-April to 12% at end-June 2020).

SGLs accounted for 27% of firms' short-term borrowings (i.e. loans essentially used to cover cash needs) at the end of April 2020, and 52% at the end of June.

2 Calculated over the past three years (2017-19).
3 See "FAQ-Prêt Garanti par l'État : quelles démarches pour en bénéficier ?" *https://www.economie.gouv.fr/files/files/PDF/2020/dp-covid-pret-garanti.pdf*
4 There appears to be a lag of a few weeks between the time outstanding SGLs are recorded in the Ministry's SGL monitoring database and the time they are reported by banks to the Banque de France's Central Credit Register.

3 Growth in outstanding loans has been driven by industry and wholesale and retail trade, with accommodation and food services also benefiting significantly

In the context of the Covid-19 crisis, the sectors that have seen the highest annual growth in outstanding loans are accommodation and food services (+27.1% between June 2019 and June 2020), and consultancy and business services (+21.4% over the same period). In volume terms, the biggest rises have been in wholesale and retail trade (rise of EUR 24 billion between February and June 2020) and industry (rise of EUR 18 billion over the same period, of which EUR 16 billion for manufacturing firms). These two sectors alone account for 41% of the additional EUR 101 billion in outstanding loans accumulated between February and June 2020.

The SGL scheme now accounts for a significant share of cash loans. In certain sectors, over 80% of outstanding cash loans are SGLs – this is notably the case for accommodation and food services, as well as for transportation and storage (see Table 2).

These trends corroborate the results of the Banque de France's Monthly Business Survey (EMC), which in April showed that accommodation firms generated just 1% of their normal level of turnover over the month, while for food services firms the figure was 6%. Industrial firms in

T2 Share of cash loans that are state-guaranteed loans (SGLs), by sector, at end-June 2020

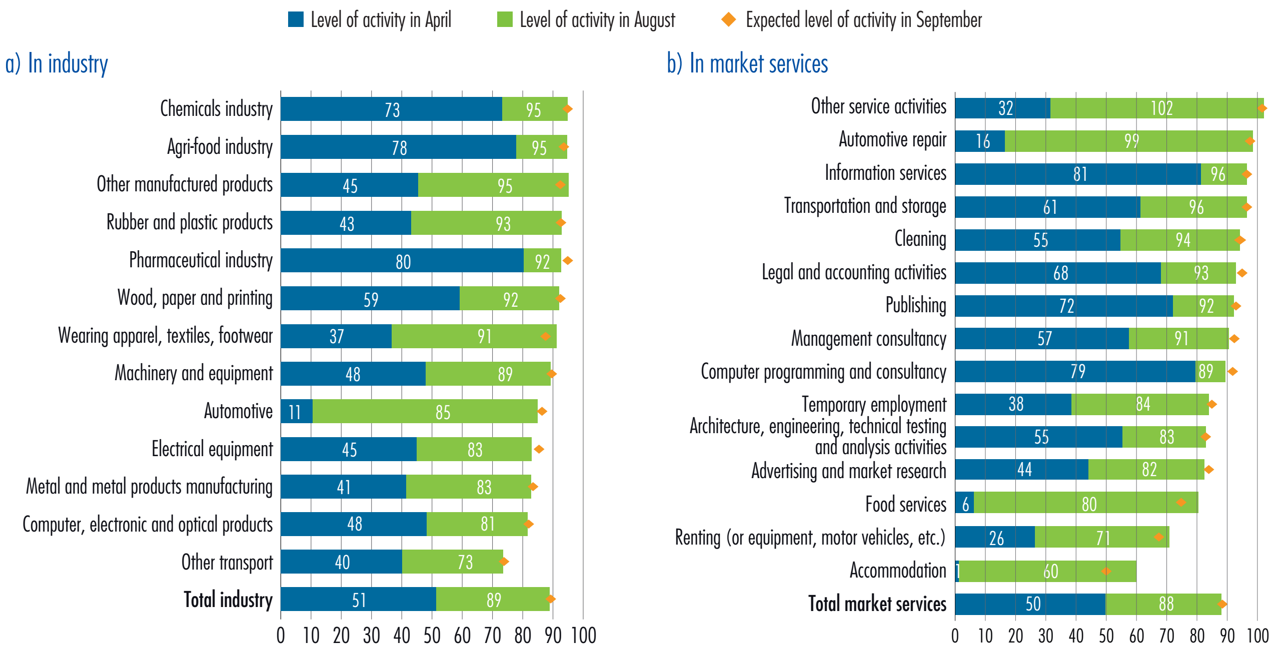
(%)

Sector	Share
Agriculture, forestry and fishing	15
Industry	46
Production and distribution of electricity	3
Water collection, treatment and supply	21
Construction	54
Wholesale and retail trade – Repair of motor vehicles	42
Transportation and storage	88
Accommodation and food service activities	83
Information and communication	51
Real estate activities	8
Management consultancy	84
Education, human health and social work activities, and other services	86

Source: Banque de France, author's calculations.
Note: Cash loans are proxied by short-term loans.

C4 Level of activity by sector in April, August and September 2020

(%)



Source: Banque de France – *Update on business conditions in France at the end of August 2020*.
Key: In the automotive industry, activity in April was at 11% of the level deemed normal by business leaders; in August, it was at 85% of the level deemed normal; business leaders in the automotive industry expect activity in September to reach 88% of normal levels.

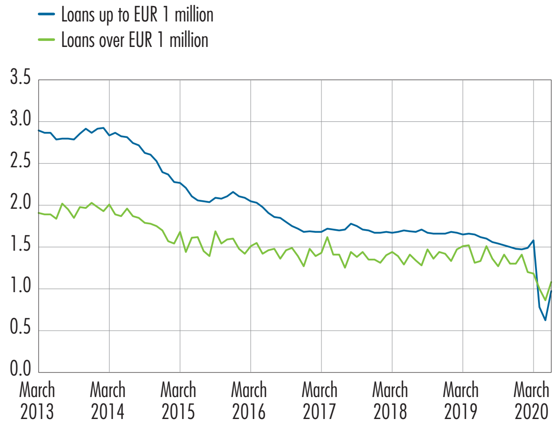
turn were at 51% of their normal levels of activity (11% for the automotive industry). These sectors therefore had significant cash shortages which were at least partially covered by the use of credit.

4 The cost of bank credit has dropped sharply since the lockdown

The strong rise in outstanding loans since March 2020 has been accompanied by a marked drop in the cost of credit. This can notably be attributed to the SGL scheme: "On behalf of the banking industry, the Chief Executive Officer of the French Banking Federation stated that banks had undertaken to provide SGLs at "cost price". In practice, this means that the interest rate charged to the borrower is the lending bank's cost of funding, which is currently close to 0%, for the first year, plus the guarantee premium."[5] The guarantee premium for the first year ranges from 0.25% to 0.50% depending on the size of the borrowing firm.[6]

The interest rates on SGLs have prompted a steep fall in the cost of new loans since March 2020. Between March 2019 and February 2020, the average interest rate on new bank loans of under EUR 1 million was 1.56%. From April 2020, this figure began to fall, and in May 2020 it

C5 Annual rate of interest on new loans to non-financial corporations
(%)



Source: Banque de France.

stood at 0.62%. For loans of over EUR 1 million, interest rates fell from an average of 1.37% for the period March 2019-February 2020 to 0.86% in May 2020.

Interest rates have stopped declining since June 2020 (0.97% for loans of less than EUR 1 million and 1.08% for loans of over EUR 1 million). The rise since June stems from the fact that SGLs have accounted for a smaller share of new lending to non-financial corporations.

5 See "FAQ-Prêt Garanti par l'État : quelles démarches pour en bénéficier ?" : *https://www.economie.gouv.fr/files/files/PDF/2020/dp-covid-pret-garanti.pdf*
6 See "Prêt garanti par l'État" : *http://www.fbf.fr/fr/files/BMZDG5/Fiche%20produit%20-%20Pr%C3%AAt%20garanti%20par%20l'Etat.pdf*

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